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INTRODUCTION

The Office of Internal Audit performed an audit of Gratiot County FIA for the period October 1, 1999 through July 14, 2000. The objectives of our audit were to determine if internal controls in place at the local office provide reasonable assurance that departmental assets are safeguarded, transactions are properly recorded on a timely basis, and policies and procedures of the Michigan Family Independence Agency (FIA) are being followed. Gratiot County FIA had 36 full time equated positions (FTE's) at the time of our review. Gratiot County FIA provided assistance to an average 1,750 recipients per month during FY 1999, with total assistance payments of \$1,855,561 during that year.

SCOPE

Our audit was performed in accordance with Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. We obtained descriptions of significant systems operating at the Gratiot County FIA, documented those systems, and evaluated controls in each system. We tested the systems for compliance, where feasible. Our audit included the following:

Cash Receipts	Cash Disbursements
General Ledger	Modified Accrual Basis Balance Sheet
Safe and Controlled Documents	Food Stamp Inventory and Issuance
Medical Transportation	State Emergency Relief (SER)
Employment Support Services	Client Processing
CIS/ASSIST	IRS Information Security
Payroll and Timekeeping	Procurement Card
Telephone Usage	Child Well Being

EXECUTIVE SUMMARY

Based on our audit, we conclude that the Gratiot County FIA internal controls are generally adequate to provide management with reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization. However, CIS/Input/Output, and Payroll and Timekeeping controls need improvement to strengthen controls. The destruction of unauthorized receipts will improve control of Cash Receipts, and the verification of the monthly physical inventories of controlled documents with the inventory balances reported on the Controlled Document Logs will improve control of controlled documents.

LOCAL OFFICE RESPONSE

The management of Gratiot County FIA has reviewed all findings and recommendations included in this report. They indicated in a memorandum dated July 18, 2000 that they agree with all findings in the report except Item #5. They stated that in accordance with their Business Continuity and Contingency Plan, they would like to keep 30 of the old check stock on hand to issue emergency warrants in the event of a catastrophe or extended power outage.

FINDINGS AND RECOMMENDATIONS

Cash Receipts

No findings in this area.

Cash Disbursements

Reconciliation of the Sign-O-Meter Record with the Check Register

1. Gratiot County FIA did not reconcile the Sign-O-Meter Record (FIA4711) with the check register on a timely basis. A review of the Sign-O-Meter Records on file disclosed the reconciliation had not been done since October 1999.

Accounting Manual Item 410.1, page 1 requires reconciling the Sign-O-Meter Record to the check register monthly in order to provide assurance that no check is processed through the check signer that is not accounted for in the check register.

WE RECOMMEND Gratiot County FIA require staff to reconcile the Sign-O-Meter Record with the check register each month as required by Accounting Manual Item 410.1.

General Ledger

Filing Void Checks

2. Gratiot County FIA did not file void checks with the bank reconciliation. Instead the local office filed void checks with the batch cover sheets for payments or in the vault in the cash box. We also found two checks that had not been stamped with the void stamp because it had been partially defaced by erroneous printing. One check reported as void in the accounting records could not be located.

Accounting Manual Item 405, page 5 requires voided checks to be filed in numerical sequence with the canceled checks. The LO receives photocopies of cancelled checks from the bank, therefore the void checks should be attached to the bank reconciliation. Filing voided checks in numerical sequence with the canceled checks or the bank reconciliation helps to ensure that all checks are properly accounted for. All checks must be stamped void to ensure that the checks can not be cashed.

WE RECOMMEND Gratiot County FIA file void checks with the bank reconciliation in the month in which they were voided.

WE ALSO RECOMMEND Gratiot County FIA stamp all checks that are voided with the void stamp.

Checks Outstanding over Six Months

3. Gratiot County FIA did not follow established procedures for returning outstanding checks to cash. There were two outstanding checks for \$246.00 issued prior to October 1999 reported on the April 30, 2000 bank reconciliation outstanding check list.

Accounting Manual Item 405, page 4 requires any check that appears on the outstanding checklist for six consecutive months to be returned to cash

WE RECOMMEND Gratiot County FIA return outstanding checks that appear on the outstanding checklist for six consecutive months to cash as required by Accounting Manual Item 405.

Modified Accrual Basis Balance Sheet

Outstanding Accounts Receivable Due from the State

4. Gratiot County FIA has two Accounts Receivable Due from the State totaling \$550.45 that are not current. The Accounts Receivables originated in December 1990 and October 1992. Both of the Accounts Receivable were reported in prior audits of Gratiot County FIA.

WE AGAIN RECOMMEND Gratiot County FIA contact Central Office to determine what the disposition of the \$550.45 in Accounts Receivable Due from the State should be.

Safe and Controlled Documents

Voucher Checks (FIA-1802) for the Local Office Automated Accounting System

5. Gratiot County FIA had 348 Voucher Checks (FIA-1802) in inventory that were used with the Local Office Automated Accounting System (LOAAS). With the implementation of the Local Accounting System Replacement (LASR) these checks are obsolete.

Accounting Manual Item 403 pages 10-12 describes the procedures that are to be followed to destroy controlled documents. L-Letter L-00-065, dated March 15, 2000, describes the procedures for obtaining approval for the destruction of controlled documents

WE RECOMMEND Gratiot County FIA destroy the Blank Voucher checks (FIA-1802) according to the procedures detailed in Accounting Manual Item 403 and L Letter L-00-065.

Unnumbered All Purpose Receipts

6. Gratiot County FIA had 48 unnumbered all-purpose receipts stored in the Fiscal Office Vault. These receipts were once used to collect money for sales through a vending machine located in the lobby.

Accounting Manual Item 403, page 2 states that only Official Cashier's Receipts (FIA3681) and Official Field Receipts (FIA3543) received from Central Office are permitted. No other receipts can be used or stored in the local office.

WE RECOMMEND Gratiot County FIA destroy the 48 unnumbered all-purpose receipts.

Inventory Control of Voucher Checks (FIA-1802)

7. Gratiot County FIA did not maintain adequate inventory control of the Voucher Checks (FIA-1802). The bulk supply physical inventory reported on the Monthly Controlled Document Inventory and Reconciliation (FIA4351) as of May 31, 2000 did not agree with the ending inventory reported on the Controlled Document Log (FIA4070). The error occurred in October 1999 when LOAAS checks were removed from the working supply and returned to the bulk supply inventory when the LO started using Local Accounting System Replacement (LASR) checks.

Accurate completion of the FIA-4351 and the FIA-4070 is necessary to maintain inventory control and accountability of controlled documents. Failure to verify the bulk supply physical inventory recorded on the FIA-4351 weakens internal control over the documents and increases the risk that all of the documents may not be accounted for.

WE RECOMMEND Gratiot County FIA correct the Controlled Document Log (FIA-4070) to reflect the correct inventory balance of Voucher Checks (FIA-1802).

WE ALSO RECOMMEND Gratiot County FIA require the staff completing the Monthly Controlled Document Inventory and Reconciliation (FIA-4351) to verify the bulk physical inventory with the ending balance of the controlled document recorded on the Controlled Document Log (FIA-4070).

Food Stamp Inventory and Issuance

No findings in this area

Medical Transportation

No findings in this area.

State Emergency Relief

No findings in this area.

Employment Support Services

No findings in this area.

Client Processing

No findings in this area.

CIS/ASSIST

Client Information System (CIS) Enrollment Profile/Security Agreements

8. Gratiot County FIA did not have current and accurate CIS Security Agreements (FIA-3974A) on file for six employees who access the Client Information System (CIS). The status code on the FIA-3974A for four staff did not agree with the status code listed on the Operator Identification Report (PF-011). Two staff had not signed the FIA-3974A.

CIS Security Policy L-Letter L-97-063 requires that an FIA-3974A be prepared for all new users of CIS, and for all current operators each time an enrollment change is proposed. Each user of CIS is to sign the FIA-3974A.

WE RECOMMEND Gratiot County FIA determine the correct status for the staff whose status on the FIA-3974A differed from that reported on the PF-011, and obtain new FIA-3974As or change their status on CIS.

WE ALSO RECOMMEND Gratiot County FIA obtain staff signatures on the CIS Enrollment Profile/Security Agreements (FIA-3974A) that were not signed.

Customized Client Information System (CIS) Status Codes

9. Gratiot County FIA had customized the CIS status codes for three staff that would allow them access to CIS in another county (CIS status code “CNTY”). This was done when Gratiot and Isabella Counties had a Dual County Director.

This status code is no longer necessary since the two counties do not have a Dual County Director.

WE RECOMMEND Gratiot County FIA remove the “CNTY” customized CIS status code for the three staff.

IRS Information Security

No findings in this area.

Payroll and Timekeeping

Payroll Record and Retention

10. The Gratiot County FIA timekeeper maintained the certified copy of the HR-332A. The Primary Internal Control Criteria for Local/District Office Operations recommends that someone other than the timekeeper retain the HR-332A so that changes made after the certifier signs the HR-332A could be detected.

WE RECOMMEND Gratiot County FIA have the certifier or someone other than the timekeeper retain the HR-332A.

Payroll Reconciliation

11. Gratiot County FIA reconciles the PR-180 (Bi-Weekly Hours Entered Report) with the HR-332A (Time and Attendance Summary Report) rather than the FIA-4299 (Employee Time and Attendance Report). The Primary Internal Control Criteria for Local/District Office Operations states that the completed payroll is to be reconciled with the individual employee FIA-4299s.

WE RECOMMEND Gratiot County FIA reconcile the PR-180 (Bi-Weekly Hours Entered Report) with the FIA-4299 (Individual Employee Time and Attendance Report).

Procurement Card

No findings in this area.

Telephone Usage

No findings in this area.

Child Well Being

No findings in this area.